CONCEPT RESOURCES LTD.
ANNUAL REPORT 1979

CONCEPT

Annual General Meeting

The annual general meeting of shareholders will be held on August 5, 1980, at 10:00 a.m. at the offices of Code Hunter, Barristers and Solicitors, #100, 640 - 7th Avenue S.W., Calgary, Alberta, T2P 3A6.

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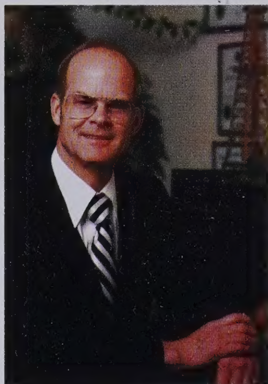
To The Shareholders



LARRY C.M. DARLING
President

Formulated in 1969, Concept has had consistent success in discovering shallow gas reserves and has been responsible for finding six new gas fields. Two of these have developed into major gas fields (i.e., over 250 billion cubic feet of marketable gas). The Hussar shallow gas field is one of these.

The majority of the financing for the 35 initial wells at Hussar has been raised internally. Funds amounting to approximately $17,000,000 have been or are being obtained through farm-outs and joint ventures with investors and existing clients. An additional 144 wells are scheduled to be drilled at Hussar by 1983.

Concept makes a turnkey drilling profit on sales of joint ventures and also retains a residual working interest in the properties.

Alberta Operations

THE HUSSAR GAS FIELD

***HUSSAR I** - 36 sections*

Hussar/Wayne has been producing gas since 1965. The shallower, "blanket-lying" sands, however, were overlooked by earlier drillers and Concept was able to obtain a 36-section farm-out on these sands in 1976. The shallower zones are called the Second White Specks, Belly River, Milk River, Medicine Hat and Horseshoe Canyon sands.

Concept drilled nine successful gas wells in 1977, ten more in 1978, and an additional ten in 1979. The first of 15 additional infield wells was started in May of this year. The company now owns an approximate 65% net working interest in the 36 sections.

A gas gathering and compression facility was built in 1979, and gas sales commenced in December, 1979.

***HUSSAR II** - 96 sections*

A major oil company, Tenneco Oil of Canada Ltd., is currently drilling the seventh of a 12-well farmout from Concept on the Hussar properties. Tenneco also has the right to drill a further 12 wells.

After completion of this $4.8 million project, Concept will have a 50% interest in three additional townships of proven gas. Hussar II is scheduled to go on stream in November, 1981.

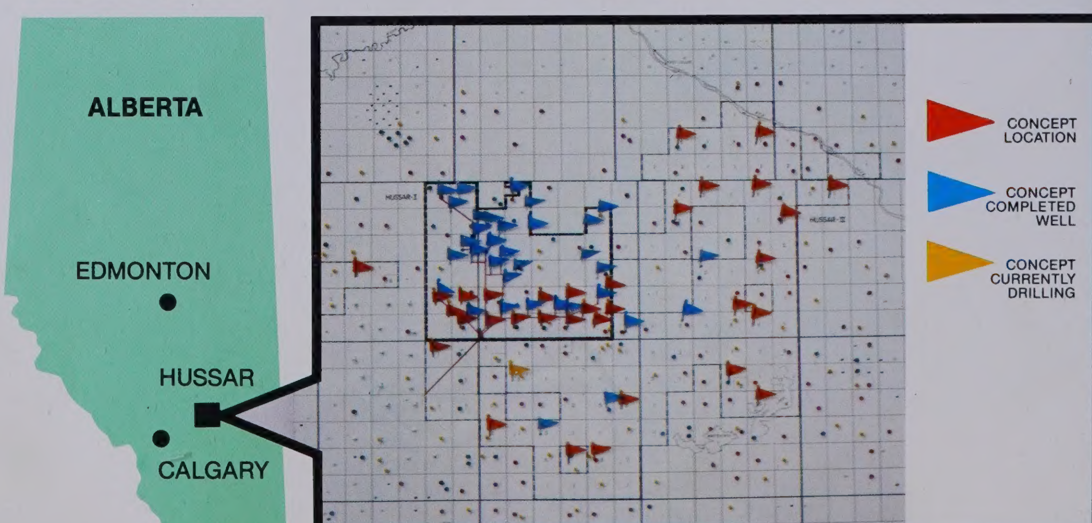
***HUSSAR** - General*

Concept is one of the lucky ones - a gas contract is in force covering the total area. Concept has three drilling rigs working at Hussar. NO DRY HOLES HAVE BEEN DRILLED or are expected to be drilled.

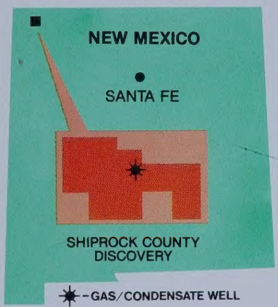
TransCanada Pipelines has contracted to purchase gas at existing rates, taking one million cubic feet per day for every 7.3 billion cubic feet of proven gas reserves on a "take or pay" basis.

The drilled proven reserves of the shallow gas at Hussar have been evaluated by TransCanada at 2.6 billion cubic feet per section. On this basis Concept's gross production allowable is expected to be over 35 million cubic feet per day by late 1981.

Concept's proved, probable and potential reserves have been evaluated independently at $204,979,600 or $36,961,556 at a 15% discount rate.



Shiprock, New Mexico

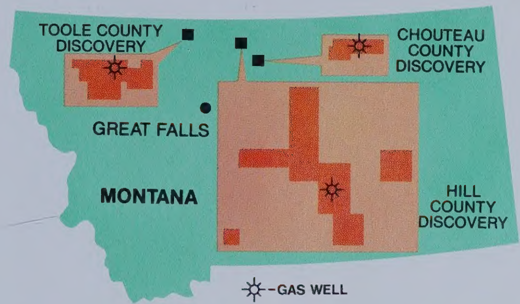


Near the town of Shiprock, New Mexico, a 6,500' discovery well drilled in 1974 by Concept went on stream in June, 1980, at a rate of two million cubic feet plus 30 barrels of condensate pay day.

Concept, 33⅓% interest owner and manager of the project, plans to drill two additional wells at Shiprock this summer. Concept's proved and probable interest in the Shiprock project is evaluated independently at $10,490,000 or $6,443,000 at a 15% discounted basis. The potential of this exciting discovery is over $50,000,000 for Concept's interest as independently evaluated at a 15% discount.

Montana Operations

The Company recently set production casing on three separate apparent discoveries in Montana. These wells vary in depth between 1,600' and 4,000' and will be completed during the summer of 1980.



Outlook

The year ahead promises to be another banner one for Concept Resources.

The company intends to continue its expansion into the United States during 1980, and in this regard has two large U.S. shallow gas projects currently under way.

In Canada, Concept will launch negotiations for the acquisition of additional land to bolster its already substantial holdings in the province of Alberta.

A major change in the coming year will see the method of drilling at Hussar changed from the conventional mud process to the air drilling system. Initial results with air drilling have been most encouraging.

Larry C.M. Darling, President
June 30, 1980

Government Policy Must Change

The 450 Independent Petroleum producers of Western Canada are apprehensive about the future of their industry. This is an industry that gave the governments and the people of Canada the following in 1979: Royalties - $4 billion; Income Tax - $1.3 billion; Exploration - $6 billion; Spending - $13.5 billion; thus the oil patch spent $200 million more than its *gross* revenue.

Consider this.

The Western Canadian oil producers are selling their oil product at 1/3 of the world price ($14.50 as against $46.00 Canadian) and the Alberta government then takes a royalty of between 20% and 45% on this $14.50. The people of Central and/or Western Canada receive no true benefit from this. The present federal government pretends to give Central Canada a lower price for refined products but, in reality, taxes these same people for that privilege. The tax funds go to refiners to purchase 500,000 barrels per day of world-price crude oil. The Canadian Government has obligated itself to subsidize the economy of Canada by $3 billion per year in order to keep up this facade.

Western Canadian oil and gas producers receive about $1.30 Canadian net for each $5.34 Canadian MCF of gas that is exported and even so, there are now over 5,000 shut-in gas wells in Western Canada - and there are no immediate markets in sight for most independents.

This incredibly inept and potentially bankrupting non-policy on oil and gas by both federal and provincial governments must change. To quote Carl Beigie, president of the *C.D. Howe Institute:* "We are borrowing from the future as a nation, rather than investing in it. . . I support a rapid move to significantly higher energy prices and suggest a policy of eliminating each year about one half the gap between domestic and an agreed upon high price until energy self-sufficiency is reached. . . The policy of trying to live with inflation is not the answer, nor is it a question of living with cheap energy in hopes that the problem will eventually disappear."

Now consider this.

A recent editorial in the *Hamilton Spectator* says, "Alberta cannot be treated as a foreign country. The future of the province - and the country - rests as much on further costly exploration of oil sands and our frontiers as on the present more accessible crude which is rapidly diminishing. "Lougheed is still a federalist. He is both an Albertan and a Canadian. Perhaps we should all begin to ponder why Ottawa can handle his pleas with so much disdain while listening so intently to the premier of Quebec."

It is expected that economic logic will sooner rather than later prevail and that the price of Canadian crude will go to world levels and additional export of natural gas will be achieved in the next several years. TO NOT DO SO MEANS BANKRUPTCY FOR CANADA.

One and all must remember - in North America there is no shortage of energy; there is, however, a critical shortage of *cheap* energy.

Larry C.M. Darling, B.Sc., P.Geol., P.Eng.

Concept's Growth Reflected in Front Office

BARRY W. SWAN
Vice-President Finance

KENNETH W. CHERYBA
Vice-President Operations

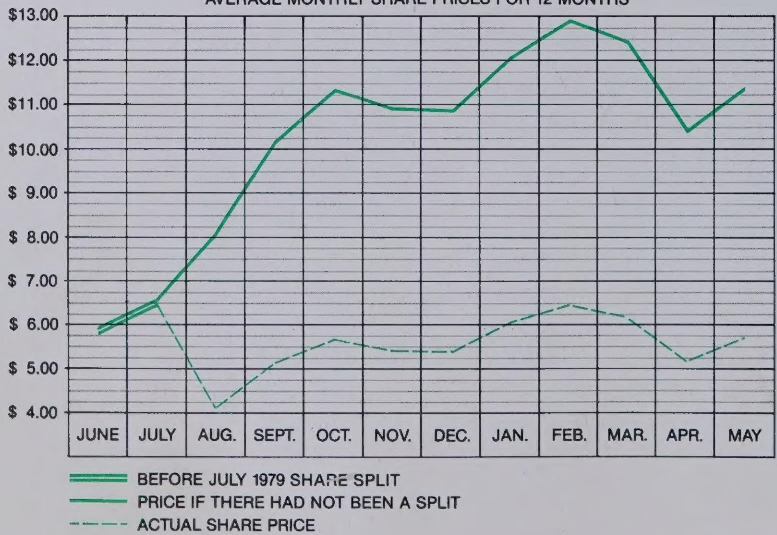
C. JAMES GILDERS
Director

BARBARA J. SHAW
Corporate Secretary

MARGARET J. BARRY
Executive Assistant

LUDJIE MOLNER
Operations Superintendent

AVERAGE MONTHLY SHARE PRICES FOR 12 MONTHS



The growth of Concept Resources during 1979-80 is apparent in the company's front office as well as in the field.

Joining the firm as officers and vice-presidents are Barry W. Swan, C.A., and Kenneth W. Cheryba, B.S., P.Eng.

Swan, a native of Calgary, Alberta, is vice-president of finance while Cheryba, from Pittsburgh, Pa., and a University of Pittsburgh graduate, is vice-president of operations.

Ludjie Molner, from Whitecourt in Northern Alberta, is Concept's operations superintendent.

On the administrative side, Barbara J. Shaw, B.A., is in her third year with the company and is now Corporate Secretary. An officer of the company, Barbara is a native of Seattle, Washington, and graduated from Washington State University.

Margaret J. Barry, from Lacombe, Alberta, is Executive Assistant. Margaret is in her fourth year at Concept's headquarters and her responsibilities include that of information liaison officer.

In addition to Concept president Larry C.M. Darling, directors of the company include Jesse C. Darling, B.Sc., R.N., and C. James Gilders, B.A. (Hon.Geol.).

Concept Resources Ltd. Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 1979

Concept Resources Ltd.

Consolidated Balance Sheet

AS AT DECEMBER 31, 1979

	1979	1978
	$	$
ASSETS		
CURRENT ASSETS		
Cash and short-term deposits	664,477	200,548
Accounts receivable (notes 2 and 5)	1,143,981	195,604
Marketable securities - at market value	15,617	16,732
Due from an officer (note 3)		209,110
Due from Hussar Drilling (note 3)	499,838	
Note receivable (notes 2 and 7)	1,500,000	
	3,823,913	621,994
PROPERTY AND EQUIPMENT (notes 5 and 7)		
Gas gathering and processing system	2,275,193	
Petroleum and natural gas properties	1,474,809	1,670,134
Equipment	219,117	188,264
	3,969,119	1,858,398
Accumulated depletion and depreciation	120,574	296,944
	3,848,545	1,561,454
OTHER ASSETS (note 4)	27,290	30,231
	7,699,748	2,213,679

SIGNED ON BEHALF OF THE BOARD

Director

Director

LIABILITIES

	1979	1978
	$	$
CURRENT LIABILITIES		
Bank indebtedness (note 2)	293,271	
Accounts payable and accrued liabilities	2,559,757	1,113,457
Drilling advances	504,190	229,236
Current portion of long-term debt (note 5)	216,250	
Due to an officer (note 3)	116,843	
	3,690,311	1,342,693
LONG-TERM DEBT (note 5)	2,622,464	
DEFERRED INCOME TAXES	248,000	
	6,560,775	1,342,693

SHAREHOLDERS' EQUITY

	1979	1978
CAPITAL STOCK (note 6)		
Authorized – 4,000,000 shares without nominal or par value		
Issued and fully paid – 2,387,408 shares (1978 - 2,335,408)	3,205,026	3,111,216
CONTRIBUTED SURPLUS	22,000	22,000
	3,227,026	3,133,216
DEFICIT	(2,088,053)	(2,262,230)
	1,138,973	870,986
	7,699,748	2,213,679

Concept Resources Ltd.
Consolidated Statement of Deficit
FOR THE YEAR ENDED DECEMBER 31, 1979

	1979	1978
	$	$
BALANCE – BEGINNING OF YEAR	(2,262,230)	(1,141,444)
Net earnings (loss) for the year	174,177	(1,120,786)
BALANCE – END OF YEAR	(2,088,053)	(2,262,230)

Concept Resources Ltd.
Consolidated Statement of Earnings
FOR THE YEAR ENDED DECEMBER 31, 1979

	1979	1978
	$	$
INCOME		
Production	57,620	164,563
Turnkey drilling contracts (net)	123,482	16,708
Other	42,022	88,805
	223,124	270,076
EXPENSES		
Production	6,165	80,828
Administration	374,640	342,723
Interest - long-term debt	20,812	79,680
- other	62,689	38,074
Depletion, depreciation and amortization	56,761	77,377
Non-producing properties abandoned	224,424	
	745,491	618,682
	(522,367)	(348,606)
RECOVERY OF (PROVISION FOR) INCOME TAXES		
Current	(145,000)	52,930
Deferred	268,000	1,400
	123,000	54,330
LOSS BEFORE EXTRAORDINARY ITEMS	(399,367)	(294,276)
EXTRAORDINARY ITEMS (note 7)	573,544	(826,510)
NET EARNINGS (LOSS) FOR THE YEAR	174,177	(1,120,786)
EARNINGS (LOSS) PER SHARE BEFORE EXTRAORDINARY ITEM		
Basic and fully diluted	(17¢)	(13¢)
NET EARNINGS (LOSS) PER SHARE		
Basic	7¢	(49¢)
Fully diluted	6¢	(49¢)

Concept Resources Ltd.

Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1979

	1979	1978
	$	$
SOURCE OF WORKING CAPITAL		
Proceeds on sale of petroleum and natural gas properties	2,250,000	6,000
Proceeds on sale of equipment	12,650	1,200
Proceeds on issue of capital stock	93,810	64,351
Increase in long-term debt		84,332
Reduction of income taxes on carry forward of losses	145,000	
Increase in working capital resulting from surrender of properties and pipe in exchange for release of long-term debt		228,957
	2,501,460	384,840
USE OF WORKING CAPITAL		
Used in operations –		
Loss before extraordinary items	399,367	294,276
Items not affecting working capital	13,185	75,977
	386,182	218,299
Additions to property and equipment	3,293,341	454,539
Less: Issue of long-term debt (net of current portion of $216,250)	2,032,364	
	1,260,977	454,539
	1,647,159	672,838
INCREASE (DECREASE) IN WORKING CAPITAL	854,301	(287,998)
WORKING CAPITAL (DEFICIENCY) – BEGINNING OF YEAR	(720,699)	(432,701)
WORKING CAPITAL (DEFICIENCY) – END OF YEAR	133,602	(720,699)

Auditors' Report to The Shareholders

We have examined the consolidated balance sheet of Concept Resources Ltd. as at December 31, 1979 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND
CHARTERED ACCOUNTANTS

Calgary, Alberta
May 21, 1980

Concept Resources Ltd.

Notes to Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 1979

1. ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the accounts of the company and Concept Drilling Ltd. and Concept Resources Inc., its wholly-owned domestic and foreign subsidiary companies.

Translation of Accounts of Foreign Subsidiary Company

Current assets and liabilities are translated into Canadian dollars at December 31 exchange rates and non-current assets, liabilities and capital stock at the exchange rates prevailing when the assets were acquired, liabilities incurred or capital stock issued. Revenue and expenses with the exception of depletion and depreciation of property and equipment are translated at the average annual rate of exchange. Depletion and depreciation are translated at the rates used in the translation of the relevant asset accounts. Translation gains and losses are included in determining net earnings in the year in which they arise.

Property and Equipment

The company follows a full cost method of accounting for petroleum and natural gas properties whereby all costs relating to the exploration and development of oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties and costs of drilling both productive and non-productive wells. These costs are grouped into contiguous geological areas of interest. If a project interest, or significant portion thereof, is sold a profit or loss is recognized by the recording of proceeds as revenue and the expensing of an appropriate amount of the related accumulated costs. When an area of interest reaches the economic production stage, the related capitalized costs are amortized by the unit of production method based on estimated proven reserves. The costs related to areas which are relinquished after evaluation are expensed in the year of relinquishment. Properties whose carrying values exceed their estimated realizable value are written down to that realizable value in the year that such a determination is made by management.

The gas gathering and processing system is recorded at cost and depreciated on the unit of production method which is designed to write the asset off over its estimated useful life.

Equipment consists of field and office equipment and automotive equipment. These assets are recorded at cost and depreciation thereon is provided on the diminishing balance method at rates varying from 20% to 30%, designed to amortize the cost of the assets over their estimated useful lives.

Drilling Income

Revenue from drilling operations is recognized on the percentage of completion method.

Income Taxes

The company follows the tax allocation method of accounting for the tax effect of the timing differences between taxable income and the income recorded in the accounts. Timing differences arise when, for income tax purposes, the company deducts exploration and development expenditures and capital cost allowances in amounts differing from those charged to expense in the financial accounts.

Earnings Per Share

Earnings per share are calculated using the weighted average number of shares outstanding during the respective fiscal years. Fully diluted earnings per share have been calculated as if the exercise of share purchase warrants and options had occurred at the beginning of the year and the potential funds therefrom yielded interest at current rates.

1978 figures have been restated to reflect the 2 for 1 stock split in 1979.

Joint Ventures

Substantially all of the company's exploration and production activities are conducted jointly with others and the accounts reflect only the company's proportionate interest in such activities.

Patent

The patent is carried at its 1963 market value. The value of the patent is being amortized on the straight-line method over seventeen years.

2. SECURITY FOR BANK INDEBTEDNESS

The note receivable and accounts receivable have been pledged as security for the bank indebtedness. An officer of the company has also personally guaranteed the bank indebtedness.

3. DUE TO OFFICER AND RECEIVABLE FROM HUSSAR DRILLING

The amount due to an officer represents various amounts due to the officer and various corporations controlled by the officer by the company and its subsidiary companies.

The amount due from Hussar Drilling represents advances which are interest-bearing, to a joint venture 75% owned by a corporation controlled by the officer in order to finance the purchase of a drilling rig and initial operations.

4. OTHER ASSETS

	1979 $	1978 $
Refundable deposits	25,083	25,083
Patent, at 1963 market value, less amortization of $47,793 (1978 - $44,852)	2,207	5,148
	27,290	30,231

5. LONG-TERM DEBT

	$
Debenture loan payable to Guaranty Trust Company of Canada with interest at prime rate plus 1% per annum repayable at a minimum amount of $18,750 plus interest per month commencing on February 1, 1980, with the remaining balance due on February 15, 1985	2,249,962
Estimated future liability with regard to payout of various partnerships on sale of properties in the Medicine Hat field, repayable based on production of properties sold (note 7)	588,752
	2,838,714
Less Current portion	216,250
	2,622,464

The company's interests in natural gas properties in the Hussar gas field and the gas gathering and processing system have been pledged as security for the debenture loan.

The debenture loan payable includes an amount of $324,000 receivable by the company from the Guaranty

Trust Company of Canada upon receipt of certain documentation.

Of the current portion of long-term debt, $206,250 relates to the repayment of the debenture loan and $10,000 relates to repayment of the estimated future liability.

The aggregate minimum amount of payments required in each of the next five years to meet retirement provisions are as follows:

	$
Year ending December 31, 1980	216,250
1981 to 1984	225,000 per annum

The aggregate amount of payments required in respect of the estimated future liability with regard to payment of various partnerships for the years 1981 to 1984 is not determinable at this time and is not reflected in the $225,000 per annum.

CAPITAL STOCK

(a) Capital Stock Issued

	1979		1978	
	Number of shares	Amount $	Number of shares	Amount $
Exercise of warrants	30,000	60,000	48,000	48,000
Exercise of employee stock options	22,000	33,810	10,000	16,351
	52,000	93,810	58,000	64,351

(b) Stock Split

Effective July 19, 1979 the company's shares were split 2 for 1 increasing outstanding shares from 1,177,704 to 2,355,408.

(c) Shares Reserved for Issue

(i) Employee Stock Options and Share Purchase Arrangements

At December 31, 1979, options to purchase 87,000 shares (including 77,000 to directors and officers) were outstanding at prices ranging from $1.50 to $3.25 exercisable at various dates to August 7, 1981. Subsequent to the year end the company has agreed to sell, subject to the approval of regulatory authorities, to certain officers 20,000 shares at $4.36 per share and 129,042 shares at $4.68 per share under share purchase arrangements.

(ii) Share Purchase Warrants

At December 31, 1979 there were 520,000 share purchase warrants outstanding. After giving effect to the 2 for 1 stock split, 500,000 warrants to purchase 1,000,000 shares of the company at $0.50 per share are exercisable on or before February 28, 1982. Of the remaining 20,000 warrants which may be exercised to purchase 40,000 shares of the company at $2 per share, 10,000 warrants were exercised on May 21, 1980 and 10,000 warrants are exercisable on or before November 21, 1980.

Subsequent to the year end the company has issued to a securities dealer as consideration for arranging drilling financing, 37,500 share purchase warrants to purchase 37,500 shares of the company at $4.00 to $5.00 per share exercisable on or before January 31, 1981. Further to the same agreement the company has agreed to issue up to 37,500 additional share purchase warrants under the same terms and conditions.

(iii) Other

Subsequent to the year end the company has agreed to issue to the participants in the Concept 1979 Hussar Drilling Program the right to convert their working interest in the Hussar field into shares of the company. The conversion option, which is exercisable by each investor on a per unit basis, would add to the company's share capital in total the following amounts:

	No. of Shares
If conversion option exercised before December 31, 1980	400,000
from January 1, 1981 to June 30, 1981	300,000
from July 1, 1981 - December 31, 1981	240,000
from January 1, 1982 - June 30, 1982	200,000

The company has also agreed to issue to the participants in the Concept 1978 Hussar Drilling Program the right to convert their working interest in the Hussar field into 167,916 shares of the company before June 30, 1980 exercisable by each investor on a per unit basis. The latter is subject to the approval of the regulatory authorities.

EXTRAORDINARY ITEMS

	1979 $	1978 $
Gain on sale of Medicine Hat field, net of related income taxes of $516,000	428,544	
Reduction of income taxes on carry forward of losses	145,000	
Loss on transfer of properties in exchange for release of long-term debt obligations		826,510
	573,544	826,510

The company sold its interest in the Medicine Hat field pursuant to an agreement dated April 30, 1979 for $2,250,000 receivable in three non-interest bearing installments of $750,000 each due June 30, 1979, January 2, 1980 and June 30, 1980. The net book value of this property at the date of sale amounted to $715,356. A provision of $590,100 for payment of obligations to partners has been deducted in arriving at the net gain.

The company and its subsidiary companies have the following accumulated losses for income tax purposes for which no future tax benefit has been recognized in the accounts:

(i) Concept Drilling Ltd. has losses for Canadian tax purposes amounting to $117,000 which may be claimed no later than:

	$
Year ending November 30, 1984	11,000
1985	106,000
	117,000

(ii) Concept Resources Inc. has accumulated losses for U.S. tax purposes which may be carried forward and used to reduce U.S. taxable income of $450,000 which may be claimed no later than:

	$
Year ending November 30, 1983	377,000
1984	73,000
	450,000

STATUTORY INFORMATION

The aggregate direct remuneration paid or payable by the company to the directors and senior officers of the company, as defined in the Alberta Companies Act, amounted to $101,965 (1978 - $75,450).

COMPARATIVE FIGURES

Certain of the 1978 figures on the statement of earnings and changes in financial position have been reclassified to conform to the 1979 financial statement presentation.

Concept Resources Ltd.

DIRECTORS & OFFICERS

* + Larry C.M. Darling, B.Sc., P.Eng., P.Geol.
President & General Manager

* + C. James Gilders, B.A., (Hon. Geol.)
Director

Jessie C. Darling, B.Sc., R.N.
Director

\+ Barbara J. Shaw, B.A.
Corporate Secretary

\+ Barry W. Swan, C.A.
Vice-President Finance

\+ Kenneth W. Cheryba, B.S., P.Eng.
Vice-President Operations

* Director
\+ Officer

HEAD OFFICE

Effective August 5, 1980
1200, 700 - 4th Avenue S.W.
Calgary, Alberta T2P 3J4
Telephone (403) 265-6982

SUBSIDIARIES

Concept Drilling Ltd.
Concept Resources, Inc.

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company
[illegible] 505 - 3rd St. S.W.
[illegible] Alberta T2P 3E6

[illegible]

[illegible] Treasury Branch
Main [illegible] S.W. Calgary

AUDITORS

[illegible]

LEGAL [illegible]

[illegible]
100, 540 [illegible]
Calgary, Alberta
T2P [illegible]

STOCK EXCHANGE LISTING

Alberta [illegible] (symbol CRZ)

CREDITS: [illegible] acknowledges the permission granted [illegible] Canada and Mrs. [illegible] of Hussar Drilling Rig #1. Photos of [illegible] by ABL Photo Techniques Ltd. of Calgary, Alberta; [illegible] equipment by MACH 2 Film Productions Ltd. [illegible] artwork and design by Art Directions of C.L. Belyea Ltd. [illegible] Alberta; produced and edited by [illegible] Gordon H. McCann & Associates, Calgary, Alberta.

Concept Resources Ltd.

DIRECTORS & OFFICERS

* + Larry C.M. Darling, B.Sc., P.Eng., P.Geol.
President & General Manager

* + C. James Gilders, B.A., (Hon. Geol.)
Director

* Jessie C. Darling, B.Sc., R.N.,
Director

+ Barbara J. Shaw, B.A.
Corporate Secretary

+ Barry W. Swan, C.A.
Vice-President Finance

+ Kenneth W. Cheryba, B.S., P.Eng.
Vice-President Operations

* Director
+ Officer

HEAD OFFICE

Effective August 5, 1980:
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Calgary, Alberta T2P 3J4
Telephone (403) 265-6982

SUBSIDIARIES

Concept Drilling Ltd.
Concept Resources, Inc.

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company
3rd Fl., 505 - 3rd St. S.W.,
Calgary, Alberta T2P 3E6

BANKERS

Province of Alberta, Treasury Branch
Main Branch, 717 - 6 Ave. S.W. Calgary

AUDITORS

Coopers & Lybrand
2400 Bow Valley Square III
255 - 5th Ave. S.W.,
Calgary, Alberta T2P 3E9

LEGAL COUNSEL

Code Hunter,
Barristers and Solicitors
100, 640 - 7th Ave. S.W.,
Calgary, Alberta
T2P 3A6

STOCK EXCHANGE LISTING

Alberta Stock Exchange (Symbol CRZ)

CREDITS: Concept Resources gratefully acknowledges the permission granted by the Guaranty Trust Company of Canada and Mrs. Freda Williams for use of the photos of Hussar Drilling Rig #1. Photos of Concept officers and personnel by ABL Photo Techniques Ltd. of Calgary, Alberta; photos of drilling rigs and equipment by MACH 2 Film Productions Ltd., Calgary, Alberta; artwork and design by Art Directions of C.L. Belyea Ltd., Calgary, Alberta; produced and edited by Ron McGrath of Gordon H. McCann & Associates, Calgary, Alberta.

CONCEPT RESOURCES LTD.

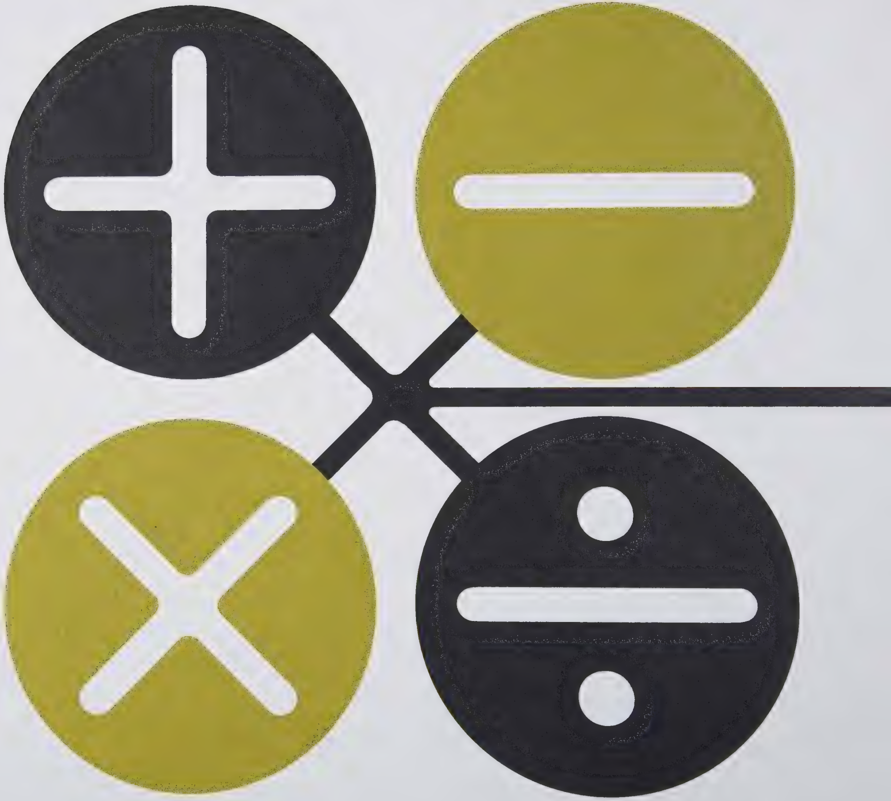
Effective August 5,1980:

1200 700 4th Avenue S.W., Calgary, Alberta, Canada, T2P 3J4
Telephone (403) 265-6982

corp report

COMTECH
GROUP INTERNATIONAL LIMITED

1970 ANNUAL REPORT



Now the leading independent data processing organization in Canada, specializing in payroll and management information.

DIRECTORS

Robert Bellamy

Michel Bourbonnais

Hugh L. Coulson

James E. Houston

Donald M. McPhail

Sinclair M. Stevens

OFFICERS

Sinclair M. Stevens, Chairman

Donald M. McPhail, President

Lionel T. Colman, Treasurer

Noreen M. Stevens, Secretary

COMTECH

FINANCIAL HIGHLIGHTS

	1970	1969
Revenues	$2,731,005	$2,609,698
Net Income	$ 111,842	$ 71,604 (1)
Earnings per share	.16	.11 (1)
Average number of common shares outstanding	698,428	643,963

(1) Restated

PRESIDENT'S REPORT

TO OUR SHAREHOLDERS:

In 1970 we took two important strides forward:

1. We became the Nation's Number One independent supplier of computerized payroll services.

2. We entered the rich American market.

For 21 months we have built our company with a deliberate shifting of emphasis from custom work to specialized activity in the computerized payroll service business. During that period we have added 330 new payroll accounts and currently we are growing at the fastest rate in our history. In the month of October, for example, we gained 28 new accounts whose billings will total over $72,000 annually.

Our services are used by companies having payrolls ranging from 11 employees to over 3,000. It is the uniqueness of our package program which has led us to pre-eminence in the field.

While it is nice to be number One, we gain more satisfaction from the many and continuing commendations received from clients we presently serve.

A general contractor states: "We recommend Comtech's Paymaster to any organization where size or complexity make handwritten payrolls a burden."

A major service company comments: "We always find your employees very courteous and ready to help us with our problems. I think your payroll service is very prompt and efficient and I would certainly recommend this service to your prospective clients. By changing our payroll operation to Comtech service, we were able to effect savings in our labour costs and we will certainly continue using your service in future."

One of Canada's largest wholesale distributors says: "We have now passed the first full year of your data processing service on our four payrolls in this office. In that period of time we have not only replaced personnel handling our payrolls, but have also re-distributed these duties and any transition has been made without any appreciable amount of difficulty."

In late April we expanded our operations geographically through an agreement to purchase Namac, Inc., an American data centre in the State of Massachusetts. Already this acquisition has allowed us to offer our computerized payroll service in Massachusetts through marketing agreements with various American banks, who distribute the package through their branch operations. This program minimizes our necessity to field a direct sales force and gives us a prestigious contact with future clients. Based on initial reaction, we anticipate that our entry into the American market by working in conjunction with banks in that Country, will not only be profitable, but administratively, relatively simple.

In the year we have invested approximately $470,000 of working capital to acquire a computer, two data centres, and in the development of our package programs and sales force. Return from this investment is now being demonstrated and shows in current monthly operating profits.

Our growing data processing package revenue is reflected in a table shown in this report. Package revenue in the first quarter of our current year is 140% ahead of such revenue in the first quarter of the previous year.

Our emphasis in the package field is even more dramatically shown by the fact that 84% of our Canadian clientele are now payroll service customers.

Chartering activity continues and at the present time we have two district charters operating in Ontario in addition to our chartered associate in Atlanta, Georgia. Our chartering concept works as an excellent supplement to our direct sales activity, since it enables us to expand geographically into distant areas without excessive startup expenditures.

As reflected in our statements we have sold and leased back the land and building previously owned by the company in Brantford. This transaction freed up cash and along with our sub-leasing of surplus space in the building, has minimized our property expenditures in our automotive manufacturing division. In addition, we have re-organized this division by closing down our unprofitable cotton production, and expanding our jute and foam rubber operation.

With this stream-lined approach and a 20% increase in bookings which are already in hand, we expect to be able to maintain a profitable operation in Brantford.

Sale of the division or its merger with another concern have been considered and negotiations are presently being advanced along this line.

With revenue and profitability rising monthly, we anticipate a good year in 1971. In the meantime, may we thank you as shareholders for your patience during our transition from a custom data processing concern to a highly specialized package operation. We know you will be pleased with our future annual results. Our staff is outstanding and we wish to thank them for their efforts.

On behalf of the board of directors,

Donald M. McPhail
President

ASSETS

	1970	1969 (Restated)
CURRENT ASSETS		
Cash and bank deposit receipts	$ 17,214	$ 296,879
Accounts receivable	340,654	251,270
Notes receivable	5,500	57,983
Income taxes recoverable	6,251	—
Inventories, at cost	148,531	179,138
Prepayments and advances	56,016	42,403
Current maturities on debenture receivable	24,000	—
	598,166	827,673
INVESTMENTS		
Notes receivable (Note 2)	14,900	28,991
Debenture receivable (Note 3)	138,000	—
Associated company (Note 1)	—	105,543
	152,900	134,534
FIXED ASSETS (Note 3)	1,606,546	1,581,021
INTANGIBLES AND DEFERRED CHARGES		
Premiums incurred on acquisition of subsidiary companies (Note 1)	603,029	240,626
Deferred charges (Note 4)	214,109	91,111
Patents, at cost	12,356	12,356
	829,494	344,093
	$3,187,106	$2,887,321

Signed on behalf of the Board:

DONALD M. McPHAIL, Director

SINCLAIR M. STEVENS, Director

CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 1970

LIABILITIES

	1970	1969 (Restated)
CURRENT LIABILITIES		
Bank indebtedness (Note 5)	$ 226,655	$ 24,407
Accounts payable and accrued liabilities	403,038	377,751
Income taxes	—	10,828
Current liabilities before debt payments	629,693	412,986
Long-term debt payments due over next twelve months (Note 6)	201,342	169,773
	831,035	582,759
LONG-TERM DEBT (Note 6)	732,280	691,313
DEFERRED CHARTER INCOME	17,650	—
DEFERRED INCOME TAXES (Note 11)	—	4,847
	1,580,965	1,278,919

SHAREHOLDERS' EQUITY

CAPITAL STOCK

Authorized

14,490	5% First preference shares, $10. par value cumulative, redeemable at $10.20 a share		
157,482	3% Second preference shares $1. par value non-cumulative, redeemable at par		
2,000,000	Common shares, $1. par value		
Issued			
4,490	5% Preference shares	44,900	44,900
55,482	3% Preference shares	55,482	55,482
744,263	Common shares (including 50,000 shares during year — Note 2)	744,263	694,263
		844,645	794,645
CONTRIBUTED SURPLUS (Note 8)		681,851	672,773
EXCESS OF APPRAISED VALUE OF FIXED ASSETS OVER DEPRECIATED COST (Note 3)		—	173,181
RETAINED EARNINGS (DEFICIT)		79,645	(32,197)
		1,606,141	1,608,402
		$3,187,106	$2,887,321

AUDITORS' REPORT

To the Shareholders of
Comtech Group International Limited

We have examined the consolidated balance sheet of Comtech Group International Limited and its subsidiaries as at June 30, 1970 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the companies as at June 30, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting policy explained in Note 10 to the financial statements, on a basis consistent with that of the preceding year.

Toronto, Ontario
November 6, 1970.

Laventhol Krekstein
Horwath & Horwath,
Chartered Accountants.

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED JUNE 30, 1970

	1970	1969
REVENUES		(Restated)
Manufacturing sales	$1,559,030	$1,621,565
Computer services	948,705	786,100
Charter fees (Note 2)	223,270	202,033
	$2,731,005	$2,609,698
COSTS AND EXPENSES		
Manufacturing cost of sales	1,448,030	1,442,190
Data processing expenses	839,612	673,339
Selling, general and administrative expenses	466,216	335,335
	2,753,858	2,450,864
Income (loss) before taxes	(22,853)	158,834
Income tax recovery (provision)	9,207	(51,740)
	(13,646)	107,094
Provision for minority interest	908	—
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	(14,554)	107,094
EXTRAORDINARY ITEMS, net (Note 10)	126,396	(35,490)
NET INCOME	$ 111,842	$ 71,604
EARNINGS PER SHARE		
Income (loss) before extraordinary items	(.02)	.16
Extraordinary items	.18	(.05)
Net income	.16	.11
Average number of shares outstanding	698,428	643,963

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED JUNE 30, 1970

	1970	1969 (Restated)
SOURCE OF FUNDS		
Operations		
Net income	$ 111,842	$ 71,604
Charges not requiring funds		
Depreciation on fixed assets	100,888	74,568
Amortization of deferred charges	57,352	30,355
Credits not providing funds		
Deferred income taxes	(4,847)	(1,641)
Chartering fees, non current	—	(28,991)
Gain on sale of fixed assets	(127,829)	—
	137,406	145,895
Issue of common shares		
For cash	—	276,500
In exchange for shares of subsidiaries	60,000	193,320
Increase in long-term debt	226,497	518,015
Proceeds on sale of fixed assets	345,273	—
	$ 769,176	$1,133,730
APPLICATION OF FUNDS		
Investment in shares of subsidiaries, less working capital at dates of acquisition	$ 298,635	$ 376,603
Purchase of fixed assets		
Computer equipment	386,705	552,424
Other	71,664	60,344
Debenture taken back on sale of fixed assets	138,000	—
Systems development — package programs	76,155	35,750
Sales development costs	83,311	13,753
Computer conversion costs	—	19,635
Customer acquisition cost	9,000	—
Repayments on long-term debt	189,130	185,490
Miscellaneous	(5,641)	986
	$1,246,959	$1,244,985

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED JUNE 30, 1970

	1970	1969
BALANCE AT START OF YEAR		
As previously reported	$ 62,734	$ (78,225)
Prior years' adjustment to organization and finance expenses (Note 10)	94,931	25,576
As restated	(32,197)	(103,801)
NET INCOME	111,842	71,604
BALANCE AT END OF YEAR	$ 79,645	$ (32,197)

NOTES TO 1970 CONSOLIDATED FINANCIAL STATEMENTS

1. **ACQUISITIONS AND PRINCIPLES OF CONSOLIDATION**

The Company (which changed its name from Fibre Products of Canada Limited in November 1969) owns the following principal subsidiaries:

Name of Subsidiary	Date Acquired	Percentage Owned
Comtech Group Limited	June 3, 1969	100%
Subsidiaries of Comtech Group Limited		
Commercial & Technical Computer Services (Ontario) Limited	March 30, 1968	100%
Comtech Limitee	August 7, 1968	100%
Charters Limited	October 11, 1968	100%
Commercial Computer Services Inc.	November 3, 1969	90%
Namac Inc.	May 29, 1970	100%
Fibre Products of Canada Company Limited		100%

As at June 30, 1969 the Company held a 49% interest in the common shares of Commercial Computer Services Inc. and reflected this as an investment in an "associated company". On November 3, 1969 the Company acquired additional common shares to increase its ownership to 90%.

The Company also acquired on May 29, 1970 100% of the shares of Namac Inc. (Note 2).

The acquisition of Comtech Group Limited in June 1969 was treated as a "pooling of interests" for accounting purposes and accordingly the consolidated statement of income includes the operations of this company and its subsidiaries for the entire 1969 fiscal year.

All other acquisitions of subsidiaries have been accounted for as purchases, which reflect earnings only from the dates of acquisition. The resulting excess of cost of investment of shares over the book value of the subsidiaries, which is not being amortized, is reflected in the financial statements as "Premiums incurred on acquisition of subsidiary companies".

2. **CHARTER FEES**

The Company reflects as income the cash received from charter fees plus a portion of unpaid notes receivable due within five years based on certain criteria, including collectibility. Income for the year includes $2,750 of unpaid notes receivable.

The two regional sales made during the 1969 fiscal year were renegotiated during 1970 resulting in a reduction of $675,500 U.S. This portion of the unpaid notes receivable was not previously reported as income.

In 1970, $169,500 U.S. of notes receivable from these sales were reflected as income. The resulting balance of notes receivable amounting to $271,000

($250,500 U.S.) was settled by way of acquisition of the shares of Namac Inc. and other items as set out below:

100% of shares of Namac Inc. (including charter rights to State of Massachusetts)		$ 246,712
Computer equipment (less $283,565 of notes payable)		103,140
		349,852
Less		
Trade accounts forgiven	$ 18,852	
Issue of 50,000 common shares of Company valued at	60,000	78,852
		$ 271,000

The balance sheet reflects as issued capital 50,000 common shares valued at $1.20 each, which issue has been approved by the board of directors but is subject to shareholders' approval.

3. **FIXED ASSETS**

	1970			1969
	Cost	Accumulated Depreciation	Net	Net
Land and building	—	—	—	398,125
Machinery and equipment	$ 851,598	379,910	471,688	442,305
Computer equipment	1,148,137	115,364	1,032,773	676,746
Magnetic tapes	34,520	10,293	24,227	12,308
Furniture and fixtures	98,040	40,984	57,056	34,250
Leasehold improvements	25,117	11,574	13,543	12,488
Vehicles	24,756	17,497	7,259	4,799
	$2,182,168	$ 575,622	$1,606,546	$1,581,021

The Company depreciates its fixed assets on a straight-line basis over their estimated useful lives.

Total depreciation recorded on fixed assets during 1970 was $100,888 ($68,402 in 1969).

During the year, the Company sold the land and building at its Brantford plant and realized a profit calculated as follows:

Sale proceeds, net		$ 345,273
Deduct		
Appraised value of land and building (less depreciation of $181,592)	$ 390,625	
Less unamortized balance of appraisal increase	173,181	
Book value of land and building sold		217,444
Profit on sale of land and building reflected as an extraordinary item (Note 10)		$ 127,829

The Company has taken back a debenture from the purchaser which has the same terms of payment as the Company's debenture payable to the Adjustment Assistance Board (Note 6).

The Company has leased back the Brantford premises for a two year period with a renewal option for a further three years.

4. **DEFERRED CHARGES**

	Period of amortization	Amortized during year	Unamortized Balance 1970	1969 (Restated)
Package programs	5 years	$ 19,128	$ 124,670	$ 61,812
Sales development	2 years	17,756	79,308	13,753
Computer conversion	1 year	12,135	—	12,135
Customer acquisition	5 years	—	8,000	—
Other	—	—	2,131	3,411
			$ 214,109	$ 91,111

Comtech designs and produces its own package programs using its own employees and facilities. The cost includes appropriate amounts of salaries, computer operating costs and administrative overhead. Amortization commences upon completion of each package program for marketing.

Sales development costs represent certain marketing expenses the benefit of which will be received in future periods. These costs are amortized on a straight line basis over a 24 month period commencing in the fourth month after incurrence of such costs.

5. **BANK INDEBTEDNESS**

Inventories and accounts receivable amounting to $460,106 have been pledged for bank indebtedness.

6. **LONG-TERM DEBT**

	1970	1969
7% First mortgage	—	$ 77,741
Secured debentures, payable to Adjustment Assistance Board, $2,000 principal monthly to March 1977; interest payable at the rate of 7½% per annum on $14,000 and 6% per annum on remainder	$ 162,000	186,000
Lien notes payable on computer equipment (at interest approximating prime bank borrowing rates)		
Monthly principal instalments of $3,811 to 1973	138,248	184,815
Monthly principal instalments of $6,122 to 1975	348,970	412,530
8¾% Lien notes payable on computer equipment due in monthly instalments of $6,060 (including interest) to 1974 ($253,174 U.S.)	272,004	—
Other debt, maturing in 1971	12,400	—
	933,622	861,086
Less current maturities	201,342	169,773
	$ 732,280	$ 691,313

The Company has followed the approach of purchasing its major equipment (rather than leasing) which has resulted in the inclusion under current liabilities of $177,342 representing the next 12 months of principal payments on computer equipment.

The debentures payable to the Adjustment Assistance Board are secured by the debenture receivable (Note 3) and by a first fixed and specific charge on specific machinery and equipment.

The aggregate amounts of payments required for retirement provisions in each of the next five years are as follows:

1971	$201,342
1972	213,923
1973	201,889
1974	170,907
1975	94,961

7. **DIVIDEND RESTRICTIONS**

Under the terms of the Adjustment Assistance Board's secured debentures, the Company will not redeem any of its shares or declare or pay any dividend on any of its shares without prior consent of the Adjustment Assistance Board.

Dividends on the 5% cumulative preference shares have been paid to June 30, 1954. Arrears of dividends amount to $35,920 at June 30, 1970 on the 4,490 shares outstanding. Since the Company failed to pay more than three consecutive half-yearly dividends on the 5% cumulative preference shares and more than four consecutive half-yearly dividends on the 3% non-cumulative preference shares, both classes of shares carry voting rights.

One of the subsidiary companies has unpaid cumulative preference dividends owing to minority shareholders in the amount of $3,544.

8. **CONTRIBUTED SURPLUS**

Balance at June 30, 1969	$ 672,773
Additional costs relative to the acquisition of Comtech	922
	671,851
Paid in capital on issue of 50,000 common shares valued at $1.20 each (Note 2)	10,000
Balance at June 30, 1970	$ 681,851

9. **STOCK OPTIONS**

The Company established an incentive stock option plan during the year for officers and key employees. On March 23, 1970, options on 35,000 common shares were granted at a price of $1.00 per share (which approximated market value). Options on 7,000 shares are exercisable at June 30, 1970, with an additional 7,000 share options becoming exercisable in each of the years 1971 to 1974. No options have been exercised up to June 30, 1970.

10. **EXTRAORDINARY ITEMS**

	1970	1969
Profit on disposal of fixed assets (Note 3)	$ 127,829	—
Reduction of income taxes due to application of tax loss carry forwards (Note 11)	6,900	$ 45,400
Settlement with a vendor of a subsidiary acquired	(8,333)	(10,000)
Organization and financing costs, previously capitalized	—	(70,890)
	$ 126,396	$ (35,490)

In prior years, the Company deferred certain organization expenses resulting in its merger with Comtech Group Limited and expenses incurred in connection with an aborted financing proposal. These expenses were to be amortized over a 5 year period commencing in June 1969.

The Company has now adopted the policy of writing off such expenses in the year incurred. Accordingly, the 1969 figures have been restated to reflect this change in accounting policy by a charge against income as an extraordinary item in the amount of $70,890 and a reduction in amortization expense of $1,535. Organization costs incurred in 1968 in the amount of $25,576 have been written off as a prior year's adjustment to retained earnings.

11. **INCOME TAXES**

Income taxes in the amount of $6,900 in 1970 ($45,400 in 1969) have been eliminated as a result of utilization of previous years' losses. This elimination has been reflected as an extraordinary item in the statement of income. The companies have business losses remaining which may be deductible in determining future taxable incomes.

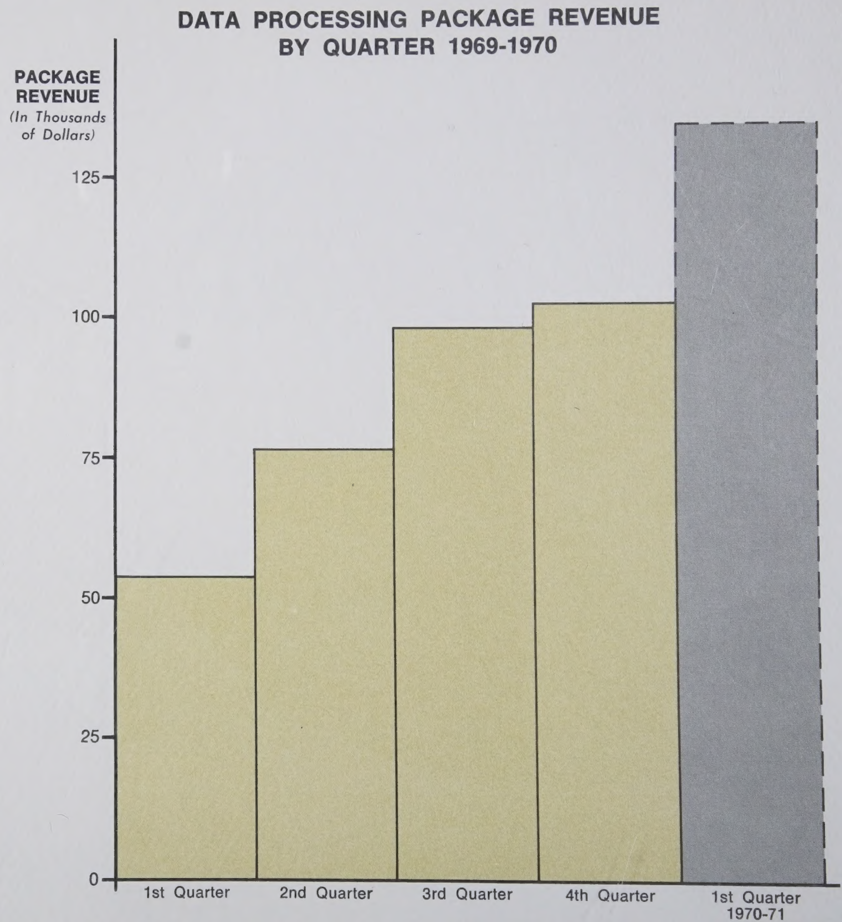
12. **COMMITMENTS**

The companies are committed to annual realty and equipment rentals approximating $132,000 until 1972 and $33,000 thereafter expiring in various periods up to 1986.

13. **STATUTORY INFORMATION**

The aggregate direct remuneration paid or payable by the Company and its subsidiaries to the directors and senior officers of the Company was $115,095 ($80,251 in 1969).

Total interest paid on long-term debt amounted to $44,327 ($40,564 in 1969).


DATA PROCESSING PACKAGE REVENUE
BY QUARTER 1969-1970
PACKAGE
REVENUE
(In Thousands
of Dollars)
125
100
75
50
25
0
1st Quarter
2nd Quarter
3rd Quarter
4th Quarter
1st Quarter
1970-71

HEAD OFFICE AND TORONTO DATA CENTRE

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MONTREAL DATA CENTRE

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FIBRE PRODUCTS OF CANADA COMPANY LIMITED

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